

Testimony  
Submitted to  
The Banks Committee  
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By Peter M. Gioia  
Vice President and Economist  
Connecticut Business and Industry Association

Good day. My name is Peter M. Gioia and I am VP & Economist for CBIA. CBIA is a statewide business association representing about 10,000 businesses, most of which are small businesses of fewer than 50 employees.

CBIA wishes to testify on and oppose **HB 6355 An Act Concerning Homeowner Protection Rights**. We feel this bill is well intentioned and we fully sympathize with fellow citizens struggling with our economic malaise, but we feel that adoption of this bill will ultimately do more harm than good to our economy and to the wealth and welfare of more of our citizens in Connecticut.

Reports clearly show that slowing the foreclosure process, which HB 6355 ultimately will do, is not beneficial to the economy, the universe of area homeowners, property values and the housing market in general. US News *Money* on 10/20/10 was prophetic when it stated, "It might seem like a respite for struggling homeowners, but the sudden snags and slowdowns in thousands of foreclosure proceedings could prolong the housing bust well beyond its fifth year—and spell deep trouble for the broader economy."

Recent study from last July from the Boston Fed, *Foreclosure Externalities: Some New Evidence*, by Gerardi et al in particular shows the negative impacts of Massachusetts' slow process, "We find that while properties in virtually all stages of distress have statistically significant, negative effects on nearby home values, the magnitudes are economically small, peak *before* the distressed properties complete the foreclosure process, and go to zero about a year after the bank sells the property to a new homeowner. The estimates are very sensitive to the condition of the distressed property, with a positive correlation existing between house price growth and foreclosed properties identified as being in "above average" condition. We argue that the most plausible explanation for these results is an externality resulting from reduced investment by owners of distressed property. **Our analysis shows that policies that slow the transition from delinquency to foreclosure likely exacerbate the negative effect of mortgage distress on house prices "**

The Connecticut economy is still slowly emerging from the toughest recession since the Great Depression. Our economy actually *lost* -100 net jobs year over year in December 2012 compared to December 2011 according to the Connecticut Department of Labor's monthly jobs report. Over 90,000 citizens who lost jobs during this past recession have yet to obtain jobs. The construction subsector, which is closely related to housing, also shed -100 net jobs over the year. We do see some signs of brighter times ahead in various local and national surveys of confidence, credit, production and sales activity, but we have a long way to go to full employment.

A critical item to building economic success and getting our people back to work is returning our housing markets to normalcy. Like many other aspects of economic recovery this is not accomplished without pain. A key element is to conduct as rapid a closure and workout of distressed properties as is humanly and humanely possible. Connecticut already has a program launched by Attorney General Jepsen which has been lauded as a model for mediation to its credit. In fact Connecticut judicial records show that successful settlements are reached 82% of the time with two thirds of borrowers reaching an agreement to remain in the home.

NY Federal Reserve First Vice President Christine Cumming emphasized the importance of housing to economic recovery at an economic summit in Hartford in early January. She lamented the negative consequences of the "foreclosure overhang" impacting "how households feel about their financial position" and on the overall economy as housing usually leads a recovery.

Connecticut has had an unusually slow foreclosure resolution situation. Other states got clobbered much more than us with massive overbuilding in the housing crisis. Connecticut was not overbuilt this time (compared to late 1980's) but has been slower in recovery because it's been slower working through the foreclosure issues.

Connecticut lags the US in its efforts to resolve foreclosure issues. In particular, FHFA has proposed a Connecticut specific mortgage surcharge because our process is so slow and costly for Freddie Mac and Fannie Mae. It would be borne by all Connecticut homeowners. The Boston Fed's economist and policy advisor Paul Willen says while it's best to avoid foreclosure but if it's unavoidable, "it's in society's interest to get the foreclosure done as soon as possible."

An increasing rate of foreclosure "creates challenges in sustaining and broadening the recovery we have in the region," according to the NY Fed's senior economist Jason Abel. In states that rapidly process foreclosures like Arizona, home prices are up 20% versus markets like NY or NJ and much of CT which are seeing declining prices.

What does lagging efforts on resolving foreclosures mean to housing markets and the economy?  
The situation results in –

1. Slower housing turnaround
2. Fewer new housing starts
3. Continued price reductions of many houses on the market
4. Continued destruction of housing valuations
5. Delay or discouragement of potential buyers
6. Deterioration in the actual condition of the home the longer it's in foreclosure affecting the unit and the neighborhood

Point 2 is reflected in our poor rate of housing starts. According to DECD in 2004 we had 10,435 permits, in 2005 11,837 and in 2006 9,236. Year 2012 finished at 4,140 up from 3,173 in 2011 but only 35% of the 2006 tally. US wide housing has begun a recovery but our recovery in Connecticut lags. This is keeping our building trades industries in a weak state and resulting in poor job creation in construction.

Points 3, 4 and 6 create added problems. People selling houses continue to have to reduce their asking price resulting in loss of sales gains, even to the point of becoming a "short sale." The valuation hit might mean a homeowner can't get refinancing or a HELOC further hurting their financial situation and leading to other lost economic activity.

Point 5 results when buyers think that if they "just wait a bit longer" prices will come down. Other buyers fret that if they buy now the home they buy may be worth less than what they paid a year from now, so they don't make the purchase. It's a vicious downward spiral!

Please don't add to the *overall* misery in housing by attempting to further complicate resolution for those in the foreclosure process. We urge the committee to defeat HB 6355. Thank you for the opportunity to present this testimony.

